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INFO RUCNIRA/IRAN COLLECTIVE PRIORITY
RUEHMIL/AMCONSUL MILAN PRIORITY 8291
RUEHNP/AMCONSUL NAPLES PRIORITY 2253
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C O N F I D E N T I A L ROME 000198

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TREASURY FOR D/S KIMMITT AND U/S LEVEY
STATE FOR EB/IFD/ODF CONNELL; NEA/IR BRENDAN HATCHER

E.O. 12958: DECL: 01/30/2017
TAGS: PREL EFIN MNUC EXIM UNSC OECD IR IT
SUBJECT: IRAN: ITALIAN ECA CHIEF ECONOMIST ON USG
DESIGNATIONS, UN SANCTIONS

REF: A. ROME 122
¶B. 06 ROME 2622

Classified By: DCM ANNA BORG PER E.O. 12958 REASONS 1.4 (B, D).

¶11. (C/NF) SUMMARY: Econoff met with the Chief Economist of SACE, Italy's export credit agency (ECA), to review SACE's current business in Iran. He explained that there has been a net decrease in SACE's business in Iran in the past six months, due to a SACE decision not to insure further trade with Iran and increased business elsewhere. He said that, "given the nature of Iran's banking system," targeting it was akin to targeting the state, and might be more effective at changing Tehran's behavior than imposing sanctions that would harm Iran's more moderate business class. While the Prime Minister's office and the MFA will ultimately decide GOI policy on Iran, SACE's views reflect those of Italy's influential business and banking sectors. End summary.

¶12. (C/NF) Econoff met January 25 with the Chief Economist at Italy's ECA, SACE ("Servizi Assicurativi del Commercio Estero"), to discuss SACE's business in Iran. (Note: The Chief Economist meets regularly with SACE's CEO and its DG.) He reported the following:

-- Credit insurance for outstandings to Iran currently represents approximately 4.6 billion euros (about sixteen percent of SACE's total portfolio), down from approximately 5.5 billion euros (or 20 percent of SACE's portfolio) in June 2006, when the Ambassador met with SACE's Director General (Ref B). This decrease is due both to increased business elsewhere (e.g., in Russia) and to SACE's decision not to increase its exposure to the Iranian market.

-- SACE anticipates its business in Iran to continue to decrease gradually over the year, given UN sanctions and the increased risk of doing business in Iran.

-- However, despite the increased risks, SACE and Italian firms continue to view Iran as a "good customer," because Iran pays its bills on time.

¶13. (C/NF) When asked about the views within SACE on the U.S. position on Iran, he replied that, while SACE personnel understand USG concerns over possible Iranian proliferation, SACE questions the act of "squeezing" the Iranian economy. He said many at SACE wonder whether sanctions will work, since U.S. and UN sanctions "failed to work" against Cuba and Saddam's Iraq. Further, U.S. and international sanctions

will play into the hands of Ahmedanejad, the clerics, and hard-liners, because sanctions deflect attention from the regime's economic mismanagement and shift blame to the international community, instead. He said sanctions also lead to harsher political rhetoric and would further marginalize reformers and moderates in Iran, upon whom the U.S. and the West ultimately depend for reform and leadership change in Iran.

¶ 14. (C/NF) He also explained that Iran's political rulers have deeply compromised Iran's banking system. Instead of additional economic sanctions that would harm Iran's "more moderate" business community, he said, a better approach would be to target Iranian banks, which would, potentially, have a greater effect on changing Iran's behavior.

¶ 15. (C/NF) COMMENT: We pressed our points hard, but SACE's political analysis of Iran ignores the argument that "squeezing" Iran financially is necessary to get the country back to the negotiating table on the nuclear issue. However, the MFA and the PM's office appear to understand this point, as well as the need to work with our allies at the EU and UN -- and they will make the policy call, not SACE. However, SACE's perspective does reflect the thinking of Italy's influential banking and business communities. End comment.
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